

1 **BEFORE THE**
2 **PUBLIC SERVICE COMMISSION OF WISCONSIN**

3 Application of Madison Gas and Electric
4 Company for Authority to Change Electric
5 and Natural Gas Rates

Docket 3270-UR-117

6 **DIRECT TESTIMONY OF GREGORY A. BOLLAM**
7 **ON BEHALF OF APPLICANT**

8 **Q. Please state your name and business address.**

9 A. My name is Gregory A. Bollam. My business address is 133 South Blair Street, Post Office
10 Box 1231, Madison, Wisconsin 53701.

11 **Q. By whom are you employed and in what capacity?**

12 A. I am employed by Madison Gas and Electric Company (MGE) as Assistant Vice President -
13 Energy Planning.

14 **Q. Please summarize your educational background and relevant work experience.**

15 A. I have a B.A. degree in economics from St. Norbert College and a M.S. degree in economics
16 from the University of Wisconsin. I have held a variety of positions in forecasting, pricing,
17 and planning during my 28 years with MGE. My current responsibilities include generation
18 planning and transmission policy; electric and natural gas sales and revenue forecasting; and
19 electric and natural gas pricing. I serve on the Edison Electric Institute Retail Energy Services
20 Executive Advisory Group; Economic Policy Advisory Group; and the Rates and Regulatory
21 Affairs Committee of which I am a past chairman. I have testified before the Public Service
22 Commission of Wisconsin (PSCW) many times on a variety of planning and pricing issues.

23 **Q. What is the purpose of your direct testimony in this proceeding?**

24 A. I am proposing to increase the green pricing premium in MGE's Residential and Business
25 Renewable Energy (RWE and BWE) programs from the current 1.25¢/kWh to 2.00¢/kWh.

1 **Q. Why is the Company proposing an increase in this case?**

2 **A.** The premium rate in the RWE and BWE programs is designed to represent the incremental
3 cost difference between the cost of the standard market energy mix and the cost of renewable
4 energy used to supply the programs. It is appropriate to increase the rate as that cost
5 differential grows. In our last rate case, we indicated that if costs for the standard market
6 energy mix as represented by the locational marginal price (LMP) at MGE's load node
7 remained at the low levels we were experiencing at the time, it would be appropriate to
8 consider increasing the premium in a future case. It is now apparent that lower LMPs
9 represent a longer-term development and not a recession-related anomaly.

10 **Q. Do you have any concerns with increasing the premium?**

11 **A.** Yes, customers have told us that their participation in our green energy program is a way for
12 them to demonstrate their support for increasing the amount of renewable energy in MGE's
13 energy supply mix over the long run. Voluntary green energy programs like MGE's Green
14 Power Tomorrow (GPT) program provide both a cost effective way to increase the amount of
15 renewable energy in its mix earlier than required by Wisconsin renewable portfolio standard
16 mandates and a way to increase the overall amount of renewable energy in the long run. Our
17 GPT program is supplied primarily from wind resources. The costs associated with electricity
18 produced from wind resources are generally stable and predictable. These costs include capital
19 cost recovery associated with turbines that MGE owns, and very stable prices for energy
20 purchased under power purchase agreements from third-party suppliers. While solar energy
21 makes up only a fraction of 1 percent of the energy in the program, the same is true of solar
22 electricity. In both cases, the fuel is free. Consequently, participants in the program anticipate
23 price stability, and that price stability is important to maintain a significant level of long-term
24 participation in the program. Frequent changes in the premium create customer confusion and
25 hurt the credibility of the voluntary program.

1 **Q. Why then are you proposing an increase in the premium?**

2 A. Because the cost of other energy sources varies with the changes in fuel prices (e.g., coal,
3 natural gas), the market value of renewable energy can change over time as the incremental
4 difference between the stable costs of renewable energy varies with the more volatile costs of
5 the standard market energy mix. If the premium is not periodically adjusted to reflect the
6 change in the differential, participants could be inappropriately subsidized by nonparticipants.

7 **Q. What is the current cost differential?**

8 A. Based on renewable energy contract costs for 2011 under MGE's power purchase agreements
9 and Pg-4 Photovoltaic Parallel Generation program, and average LMP values weighted for
10 wind and solar production for calendar year 2009, the current differential is approximately
11 3.5 cents/kWh.

12 **Q. Why are you only proposing to increase the premium to 2 cents/kWh instead of the full**
13 **3.5 cents/kWh differential?**

14 A. Increasing the premium to 3.5 cents/kWh would result in an unacceptable rate impact for the
15 current program participants. I am proposing to increase the premium by only 0.75 cents/kWh
16 as this time. There remains significant uncertainty about the long-term trends in fuel costs.
17 While natural gas prices have settled at lower levels for the past year due in part to both lower
18 demand from the extended economic recession and the increased supply of domestic shale
19 gas, there remains uncertainty about the medium- and long-term price curve. Potential costs
20 associated with carbon regulation being contemplated in Congress can also affect the long-
21 term trend. It would not be fair to program participants to raise the premium for green energy
22 significantly in this case only to come back in another year and have to lower it again. If the
23 cost of the standard market energy mix remains low for several years, the premium can be
24 reviewed and adjusted again in the future.

1 **Q. Will the proposed increase in the premium affect participation in the program?**

2 A. Yes it will. When the premium is increased, some participants will drop out of the program or
3 reduce the level of their participation. Both our past customer research and the actual behavior
4 of current program participants suggest that the level of participation by any customer is price
5 sensitive. When the price was reduced from 2.68 cents/kWh to only 1 cent/kWh in 2008,
6 many participants simply increased the amount of renewable energy they purchased to keep
7 their monthly total green energy payments constant. In some cases, customers were able to
8 purchase the equivalent of 100% of their electricity under the GPT program and actually
9 reduce the total amount they were paying each month for green energy on their energy bills.
10 Last year when the premium was increased, the opposite effect occurred. Even though the
11 increase was only 0.25 cents/kWh, customers, particularly business customers, reduced their
12 level of participation to ensure their total monthly cost remained the same as it was prior to the
13 increase. Customers have a certain budget or amount they are willing to spend for their
14 support of renewable energy and they will adjust their actual kWh purchase based on the
15 change in price. Consequently, we have reduced the level of kWh sales in the RWE and BWE
16 programs for 2011 to maintain the current level of total program revenue. This change is
17 reflected in the rate design included in the testimony of Steve James.

18 **Q. Does this conclude your direct testimony?**

19 A. Yes.